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SUBJECT: KENYA: CHINA DRILLING FOR OIL IN ISILOLO

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**¶1.** (SBU) Summary: The China National Offshore Oil Corporation (CNOOC) is drilling for oil in the Isiolo region of Kenya. Kenya won't realistically know until January 2010 if they have struck a commercially viable deposit. To date, oil exploration in Kenya has been unsuccessful. Kenya has no oil development framework in place to deal with local communities and the environment although preliminary work on a national framework has begun. The local pastoralist group impacted by the oil drilling in Isiolo was not consulted and is developing a grassroots organization to encourage the creation of the national framework which should protect local interests. In addition, questions remain as to whether an environmental impact study was ever approved by Kenya's environmental agency - the National Environment Management Authority (NEMA). We have significant concerns that -- if not transparently managed in an environmentally and socially sound fashion -- the discovery of oil in Isiolo could be disastrous for Kenya, given the culture of impunity here. End summary.

**¶2.** (SBU) The China National Offshore Oil Corporation (CNOOC) is performing exploratory drilling for oil in the Isiolo region of Eastern Province Kenya. The exploratory well will cost \$26 million and be five kilometers deep. The drilling started on October 28th and will complete in April 2010. Per an engineer with the Kenya National Oil Corporation (KNOC), the results should be known in January 2010. CNOOC is making a serious effort to find oil in Kenya. CNOOC was given six exploration blocks in Kenya after a visit by President Kibaki to China in 2005 although they only retain two blocks.

**¶3.** (SBU) Oil drilling to date in Kenya has been entirely unsuccessful. Various private sector companies have drilled 31 exploratory wells from 1960 through 2007 and all have been dry or shown only trace amounts of oil or natural gas. A U.S. Geological Survey from 1993 established the possibilities of Kenyan oil and gas deposits. In the survey, the Coast province was given the potential for 100 million barrels of crude and 600 billion cubic feet of natural gas. The GOK has mapped 38 blocks of land available for exploration and still has 15 blocks available for oil companies.

¶4. (SBU) The last major effort involved Woodside, an Australian firm, which abandoned offshore drilling near Lamu in 2007. That block and four other offshore blocks are held by an American oil firm, Anadarko Petroleum. Anadarko signed a production sharing contract in April and will begin exploration activities in Spring ¶2010. Origin Energy, another Australian oil firm, is planning three dimensional seismic mapping off the coast of Malindi. CAMEC International, Platform Resources, and Africa Oil, a UK and two Canadian firms respectively, are currently surveying the northwest portion Kenya for drilling possibilities.

¶5. (SBU) Kenya's oil exploration and production contracts fall under the Petroleum Act of 1986. The GOK does not provide oil contracts for public review nor does it consult with the impacted local communities. Civil society is very concerned about the potential for corruption and the completion of the reform agenda should oil be found. Comment: We share their concerns. End comment. Questions concerning benefits to local communities and environmental protection in the event oil is found go unanswered by government officials. Procedures for rehabilitating the site in the event drilling is abandoned have not been clarified. These issues, in turn, are tied to reforms proposed for land ownership in Kenya's draft National Land Policy. An energy sector contact told us that oil would not be beneficial to Kenya until the creation and implementation of a true national framework that would incorporate local communities and environmental issues. KNOC is working on a Kenya specific framework which would be compliant with the Extractive Industries Transparency Initiative (EITI).

¶6. (SBU) The local Borana people impacted by the Isiolo drill site were not consulted by the GOK about the details of the contract with CNOOC or the use of the trust lands on which they reside. The land is used by the pastoralist community as dry-season grazing and is very much in demand as communities contend with the long-running

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drought. A Borana leader reached out to the Embassy for help in networking with organizations that could help them. They are networking with local and regional government as well as civil society to advocate for a national framework that will protect local interests. They are also meeting with the Ministry of Energy to learn more details about the agreement signed with CNOOC and to frame the process moving forward. The Borana leadership reached out to the EITI program but were rebuffed as the GOK must initiate the process to participate in EITI. A representative of KNOC noted that the local people had misunderstandings as to the national nature of the oil contract and after it had been explained, the issue was resolved.

¶7. (SBU) The environmental impact of the drilling, development of the site, and production could be substantial. While the representative from KNOC stated that an environmental impact study had been completed, neither NEMA's Compliance and Enforcement Department nor the local Borana community, both of whom would have been consulted in the normal course of the assessment, were aware of it. If oil were found, an environmental study addressing further development, such as storage tanks, pipelines and roads, would need to be approved by NEMA. The construction of additional wells and infrastructure could have serious environmental and land impacts for the Borana.

¶8. (SBU) Comment: If not transparently managed in an environmentally and socially sound fashion, the discovery of oil in Isiolo could be disastrous for Kenya. Corruption surrounding this new-found wealth could add to an already highly corrupt government at the expense of both the reform agenda and an already fragile local community in an area where competition over land, pasture, and water regularly leads to violent conflict. While the government's attempt to create an EITI-compliant framework for Kenya is good news, the total lack of transparency in oil deals to date does not bode well for the future of oil development in Kenya. End comment.

RANNEBERGER